3.0 Additional Sources of Funding

In 1994, President Clinton issued Executive Order 12893, which established more cost-effective investment as a priority for the Administration and directed Federal agencies to seek greater private sector participation in infrastructure investment and management. Since that time, all Federal agencies have focused on ways to leverage Federal investments, thereby obtaining a higher return for Federal dollars invested, and are developing policies and programs to attract private sources of funding for investments in infrastructure.

Additional sources of funding encompass a broad range of revenue options and financing tools. These sources are used to expand the pool of resources available for funding infrastructure and accelerate the development of projects that might otherwise be held back due to funding limits from the traditional funding sources.

It is important to note that, as a general rule, additional sources of funding do not represent new sources of Federal funds. Rather they represent sources of revenue outside the traditional Federal funding programs. These additional funding sources are normally used to supplement and leverage Federal sources.

Two categories of additional sources of funding are described in the remainder of this section: revenue sources and financing tools. Revenue sources are non-traditional, non-Federal sources that provide funding for specific transit projects. Financing tools are primarily mechanisms to leverage funds obtained from other sources.

Revenue Sources

A variety of revenue sources have the potential to provide funding for ATS projects. Following is a description of various options for funding transit needs. It is important to note that the amount of funding that might be raised depends to a large extent on the characteristics of the project or the program of projects being funded. The site location, the purpose for which funding is needed, and numbers of visitors all affect the likelihood of obtaining funding.

The revenue sources identified as part of this report include:

- User fees;
- Private sponsorships;
- Advertising;
- State and Local Funds;
- Fund raising and contributions; and
- State Infrastructure Banks.

User Fees

A user fee is a fee charged to a user of a facility, which is used to cover or defray the cost of providing the facility or a specific service. In a transportation context, user fees include tolls, fares, and parking fees. Other user fees include permit fees, license fees, and use permits.

In any user fee arrangement, a determination must be made of the costs that the user fees are expected to cover. The fee may be structured to cover only operating costs, or capital as well as operating costs. Alternatively, a user fee may be structured to cover all or a portion of the cost of the ATS service or facility. In any event, a balance must be achieved between the costs to be covered and the impact of the fee on the demand for park visitation. Stated differently, user fees can be valuable in raising revenues, but the existence of a fee may also reduce the number of visitors to a facility. How much a fee impacts visitation is a function of the attractiveness of the facilities and/or service, the cost and availability of other options, and the amount the fee is increased over the previously charged fee.

Federal lands sites can charge fares for riding ATS, similar to those charged by a traditional transit system. One of the problems with this is that average party size is relatively high, and fares can become expensive for families and large groups. If free parking is available at their desired destinations, they are likely to remain in their automobile rather than using mass transit. Family or group fares can be used to mitigate this problem.

Water transportation systems and trams are generally more successful in charging fees than traditional shuttle bus services. Such fees can be substantial such as the distance-based fares in Denali NP, which range from $12.50 to $31 for adults. The Manitou Island Transit Ferry at the Sleeping Bear Dunes NL charges $20 for a round-trip fare and the NPS charges an additional $7.00 for admission to the National Lakeshore. The ability to charge these higher user fees without inhibiting usage is limited to transit systems that are a desirable component of the visitor experience and that serve sites where other options for access are not available.

However, there are impediments to charging user fees at various sites. The Great Smoky Mountains National Park, for example, cannot by legislation charge entry fees. This increases the challenge of providing transit service within the park at Cades Cove, which is currently overwhelmed with automobile traffic at peak periods. Acadia National Park initially instituted fares on a limited transit system but found little interest among visitors. The park and its partners made a decision to provide free service when they implemented the Island Explorer shuttle bus system in 1999, and raised revenue from a variety of other sources. These examples highlight the need for thorough planning and analysis when developing a financing strategy for a transit system, especially those that include user fees.

Sites that have authority to do so can charge fees for vehicles to enter sites and use part of the fee to subsidize transit. The authority to do this is provided by Congress for a limited time through the Recreational Fee Demonstration Program.

Recreational Fee Demonstration Program – This program was initially authorized by Congress in 1995 and subsequently extended through fiscal year 2001. The fee demonstration program permits participating Federal lands sites to retain 80 percent of fees charged for internal use. These fees have been used primarily to address deferred maintenance requirements, although some sites have used funds for transit needs. Adams National Historic Site in Massachusetts, for example, has used a $2 per person fee to help fund a trolley service that connects three separate sites. The program has been the subject of extensive evaluation, which is documented in several reports to Congress. In general, the program has been regarded by the participating agencies as a success. Whether the funds derived from recreational fees can be used to support transit projects depends on other competing funding needs, the level of fees generated, the cost of transit improvements, and the extension of the Fee Demonstration Program.

Private Sponsorships

Private sponsorships have been used for many years as a means to raise funding for recreational and quasi-public purposes. They range from large corporate sponsorships to individual contributions. A sponsorship may be attached to a specific facility, such as a sports stadium, or a major event, such as the Olympic Games. Sponsorships are also used to support the ongoing work of special purpose organizations, such as the Colonial Williamsburg Foundation or the Nature Conservancy.

The support provided through a sponsorship may be provided in the form of cash or in donations of products or services.

Private donors choose to provide financial support for one or both of the following reasons:

- To increase the visibility of the donor and to project a positive image. In this regard, providing financial support through a sponsorship can be viewed as a form of advertising. Most corporations provide sponsorships for this purpose.

- To demonstrate support for the goals and objectives of the recipient organization. Most individuals make contributions for this purpose.

For the purpose of funding transit projects, the FLMAs have more in common with organizations such as the Colonial Williamsburg Foundation than with major league sporting events. Sporting events offer huge media markets and, consequently, can command sponsorships valued at millions of dollars. Even for those facilities that experience large numbers of visitors, the cost of offering sports type sponsorships must be carefully evaluated against the benefits. National Parks such as Yellowstone or Yosemite may have the potential to yield lucrative sponsorship contracts, but it is highly likely that the visiting public would view such efforts as nothing more than “selling” facilities that should be held within the public trust.

The model of the Colonial Williamsburg Foundation would ensure a less commercial environment, but would yield a very different base of support from sponsorships. Colonial Williamsburg receives over 80 percent of its support from individuals rather than corporations, and its largest corporate gifts are valued at $445,000 to $1.0 million, with the average gift being much smaller. The Colonial Williamsburg Foundation provides a good model for FLMAs since its primary missions are historic preservation and education, not entertainment.

Advertising

The public transit industry had some success in recent years by allowing advertising in stations, in bus shelters, and on transit vehicles. The general concept is that an organization may publicize itself or its programs in exchange for a fee. Higher advertising payments require that higher levels of visibility be granted. An advertiser may choose to do general image advertising or more targeted advertising (for example, a neighboring business may wish to place a sign in a nearby transit station).

Another advertising possibility is through the Internet. This would most likely be in the form of allowing links to private transit provider web sites. Transit providers may be willing to pay for the exposure that links on FLMA Internet sites would provide. This is a new concept for FLMA web sites and would have to be closely monitored.

The use of advertising to support transit projects will require a careful balancing of two somewhat conflicting objectives. While the funding requirements of ATS projects may call for extensive use of advertising as a component of the funding strategy, the FLMAs may have valid concerns about "commercializing" National Parks and other Federal lands.

State and Local Funds

State and local option taxes have been commonly used to finance transit system improvements. These include general sales tax surcharges or increments, in addition to more targeted taxes on tourist-related expenditures. Items subject to these taxes may include hotels, restaurants, rental cars, and tickets to events such as theatre, sports, concerts, and festivals.

Such taxes often are difficult to implement but are well-suited to many sites that have strong links to gateway communities. For example, four municipalities on Mount Desert Island in Maine voted to dedicate a portion of their property tax to support the new Acadia NP Island Explorer transit system. In less-populated gateway communities residents may have limited resources to provide local or matching funds. However, taxes on tourist-related expenditures can generate substantial revenues that are paid primarily by non-residents, and thus are politically more attractive than locally generated sources. Local option taxes are most likely to be a viable funding mechanism when a new ATS provides transit service for the local community, in addition to the Federal lands site. Another case where local option taxes may be viable is if it can be shown that the use of transit will create economic benefits to the local area in the form of new jobs and spending.

Fund-Raising and Contributions

An alternative method of raising these funds is through direct contributions from local businesses. This may be feasible where businesses see a direct benefit from the implementation of transit in their communities. The Acadia NP Island Explorer system, for example, goes directly to the door of hotels and motels that provide a contribution to the system. While a voluntary system can avoid the political difficulties involved in implementing taxes, it is less stable and reliable over the long term.

"Friends" groups and support organizations contribute substantial sums of money to many of the major Federal lands sites. These contributions have been used primarily for trail and facility development but could be used for transit projects as well.

State Infrastructure Banks

The National Highway System Designation Act of 1995 authorizes 34 states to set up infrastructure investment funds, known as State Infrastructure Banks (SIB), to make loans and provide assistance to surface transportation projects.[4] This program is designed to give states the capacity to increase the efficiency of their transportation investment and significantly leverage Federal resources by attracting non-Federal public and private investment.[5] States have greater flexibility because they are allowed to pursue other types of project assistance in addition to the traditional reimbursable grant.

SIBs offer below-market rate subordinate loans, interest rate buy-downs on third-party loans, and guarantees, and other forms of credit enhancement. SIBs are created with Federal seed money and offer states and local partners greater flexibility regarding the financial management of transportation projects. Perhaps the strongest aspect of this program is the ability to leverage Federal funds. Eligible projects include both highway and transit capital investments.

Examples of the Use of Additional Sources of Funding

Acadia National Park – Acadia National Park in Maine provides a good case study of a successful project implementation with local, State, and Federal funding partners. The Island Explorer transit system was created through the use of federally provided funds and local matches. The system links four adjacent gateway communities and circulates within the park, with stops at major park attractions and recreation areas.

The island-wide transit system was originally conceived by the Mount Desert Island League of Towns. The League was established in 1995 and consists of town managers from the four towns on Mount Desert Island. Acadia National Park and three nearby communities also have a representative on the League. The League formed a partnership for the transit project with a local nonprofit public transportation provider, members of the local business community, and the Friends of Acadia which is a nonprofit organization that supports the park.

These partners submitted a grant application for Maine DOT's "T2000" grant program. The "T2000" grant program, funded by the Federal CMAQ program, provides funding to reduce local congestion in rural regions. Two grants, totaling $628,000, were awarded by the State of Maine to the project partners for the purchase of eight propane-fueled buses.

The Federal CMAQ program requires non-Federal matching funds. The partners raised funds for the required local match, and also for operations and maintenance costs. The four Mount Desert Island towns approved project funding at their annual town meetings, the Bar Harbor Chamber of Commerce obtained contributions from local businesses, and local partners donated material resources for project implementation. The contributions from the private sponsors, the business community, local municipalities, the Friends of Acadia, and the NPS assured that adequate funds were in place to establish a viable transit system. The transit system was implemented in 1999 with ridership exceeding expectations.

[4] TEA-21 authorizes SIBs in four new states (California, Florida, Missouri, and Rhode Island).

[5] FHWA fact sheet for the State Infrastructure Bank Program and *Statewide Transportation Planning Under ISTEA: A New Framework for Decision-making*, U.S. DOT, FHWA and FTA.

Grand Canyon National Park – Grand Canyon National Park has adopted a General Management Plan that calls for comprehensive measures to improve the visitor experience and protect the Park's resources by modifying development on the canyon rim and by developing a visitor transportation system. The plan calls for the development of a nine-mile, double-track light rail transit line (LRT) linking a major parking area and transit center located on U.S.D.A. Forest Service land outside the south boundary of the Park to two stations near the south rim.

All day-visitors to the south rim will be required to use the light rail line to reach the canyon rim. Tour buses and other transit vehicles carrying day visitors would stop at the transit center and transfer their passengers to the LRT line. Visitors staying in Park lodging or campgrounds would be able to drive to their accommodations and then would have to leave their vehicles parked while visiting the area.

The estimated capital cost of the proposed transportation system is $150 million. Operating costs of about $20 million per year are expected. The Park plans to implement the transportation system through a concession contract. The successful proposer will be required to finance all aspects of the system, including design, construction, operations and maintenance. It is expected that the cost of the system will be funded by user fees collected by the concession contractor. However, funding from other sources, including fee demonstration money, FLHP funds and NPS line item funds have been used to fund initial planning and preliminary design activities.

Financing Tools

The funding sources described above individually and collectively provide a range of options that could generate additional funding for transit projects. Maximizing the benefit of additional funding will most likely require the use of other financing tools. What follows is a description of a series of financing tools that could be used to leverage revenues and finance transit projects. This is not intended to be an exhaustive list of every financing option that is available. Rather, the discussion provides an overview of the range of concepts and financing approaches that may be used to finance transit projects.

The financing tools described below include:

- Public-Private Partnerships;
- Bonds;
- Certificates of Participation (COP);
- Leasing; and
- Federal credit.

Public-Private Partnerships

A public-private transportation partnership is an agreement between a public entity and a private organization, which provides for coordinated actions to plan, finance, construct, operate, and maintain a transportation facility or system. There is a wide variety of models of public-private ventures, but the essential element of all of them is a sharing of responsibility for raising capital and project risk. By sharing responsibility, the public entity is able to reduce the direct cost to the government of the facility and encourage private investment. Franchises and concessions are forms of public-private partnerships under which a privilege is conferred upon an organization or an individual by a government to provide a service or operate a business. Franchises generally refer to the operation of public utilities while concessions refer to food, retail, or entertainment operations. Either could be used to describe operation of transportation services on Federal lands. A governmental entity could grant a private company the right to provide a specified service under a set of defined business conditions, which will ensure that the government receives the services it requires and the company providing them is able to make a reasonable profit. A franchise or concession might call for the private entity to make capital investments as well as providing ongoing operations, or it could be limited to maintenance and operations.

Two examples of public-private partnership structures include:

1. **Build-Operate-Transfer (BOT) Model –** Private entities receive a franchise or concession to finance, build, and operate the project for a fixed period of time after which ownership reverts to the host public entity; and

2. **Buy-Build-Operate (BBO) Model –** Private entities buy legal title to an existing facility, modernize or expand it, and operate it as a profit-making public use facility.

The primary benefit of franchises and concessions is the flexibility that they allow in providing service. Federal lands sites often experience varied seasonal demand patterns. A private entity could more easily adapt their schedule and labor force to such conditions. Also, using a franchise or concession from a private group means that the FLMA is buying existing service expertise and does not need to train their own staff or hire new staff to provide the necessary service.

The Presidio Trust is an innovative example of a public-private partnership. It is currently an executive agency of the U.S. government but its financial plan calls for self-sufficiency through lease revenues by 2013. The Presidio is a historic military fort and part of the Golden Gate National Recreation Area. The financial management program outlines how revenues generated from the rehabilitation and rental of Presidio buildings will fund environmental and infrastructure improvements. The Presidio contains many historically significant structures and the Trust plans to renovate and lease the buildings to the private sector. By 2013, the revenues will be large enough to no longer require additional Federal funding. One potential use of the revenues is to assist in funding transit projects.

The NPS also has extensive experience with the use of public-private partnerships for operating its visitor facilities. Specific examples include gift shops, food and beverage service facilities, and overnight accommodations. Visitor transportation services are provided through franchise or concession arrangements at a number of the NPS facilities. These include the passenger ferry service providing access to the Statue of Liberty National Monument.

For these types of public-private partnerships to be viable there needs to be a reasonable expectation that sufficient business can be generated to support the cost of providing the service. In addition, if one of the objectives is to transfer responsibility of the capital investment to the private sector, the term must be long enough for the investment to be fully amortized.

Bonds

Bonds are debt instruments issued for periods of more than one year with the purpose of raising capital by borrowing. The Federal government, states, cities, corporations, and many other types of institutions sell bonds. A bond is generally a promise to repay the principal along with interest on a specified date (maturity). Bond principal and interest payments can be met either from dedicated revenues (such as the user feeds described above) or general tax revenues.

A few states have started to finance transportation investments with a new instrument, known as GARVEE bonds. A GARVEE bond is a type of grant anticipation note, for which capital is raised based on a pledge of future anticipated grant revenues. In this case, the anticipated grant revenues are Federal highway funding apportionments expected in future years. The advantage of using GARVEE bonds is that this enables a State to accelerate needed transportation projects and complete them before all of the Federal funding is in place. The disadvantage is that funding in future years is effectively reduced, limiting the State's ability to fund other projects at that time.

Certificates of Participation (COP)

A certificate of participation is a financing instrument in which an investor buys shares of lease revenues of an agreement made by a municipal or governmental entity, rather than purchasing a bond secured by those revenues. COPs are used when a State faces limits on its ability to increase taxes or issue other forms of debt (such as California's Proposition 13 limits). This instrument is used in the public transit industry to purchase equipment.

Leasing

A lease is a contract under which an owner of property or asset allows another party to use the property or asset for a specified period of time in exchange for payment of rent or of use fees. A lease may or may not include a purchase option under which the lessee can apply lease payments toward the purchase price of the property or asset being used.

The principal benefit of leasing is that it reduces the up-front cost of major capital purchases and allows payments to be spread out over an asset's useful life or planned period of use. It also allows for the use of capital assets for a limited period of time without having to acquire them outright.

Federal Credit

TEA-21 authorized a new Federal credit program, known as the Transportation Infrastructure Finance and Innovation Act (TIFIA), which is designed to support large, nationally significant transportation projects. TIFIA provides direct loans, loan guarantees, and standby lines of credit for large projects – those costing over $100 million. The program provides secondary or subordinate capital, repaid from dedicated project revenue streams, for up to one-third of the project costs. The project's senior debt must be investment grade.

TIFIA assistance is available to public or private entities seeking to finance, design, construct, and operate a major surface transportation project. Such entities include State departments of transportation, local governments, transit agencies, special authorities, special districts, railroads, and private companies or consortia. The program does not contemplate lending directly to other Federal agencies (i.e., outside the Department of Transportation), but may have applicability to ATS projects sponsored or undertaken by eligible organizations.

Since TIFIA is a government sponsored credit program, borrowers are able to negotiate more favorable terms (e.g., longer payback periods) than may otherwise be available from private capital markets. Applications for TIFIA assistance will be solicited at least once a year during the authorization period of TEA-21.

■ 4.0 Implications and Conclusions

It is difficult to draw definitive conclusions on the potential for financing FLMA transit projects through the funding options described in this report. However, it is clear that all the funding sources will be effectively utilized only if FLMAs are knowledgeable of the availability and applicability of various sources, and have continuous, coordinated, comprehensive planning and project development processes integrated into their ATS programs. This includes a close working relationship with State, local, and tribal governments, gateway communities, and private organizations.

Below are some general conclusions about the different funding options.

Title 23 and 49 Funding Programs

Chapter 2 of Title 23 includes the FLHP which provides funding exclusively for the FLMAs, and is administered by the FHWA. The FLHP primarily provides funding for roadway and bridge projects, although three categories of FLHP funds may be used for transit projects: the Park Roads and Parkways Program, the Forest Highway Program, and the Indian Reservation Roads Program. However, when FLHP funds are used for transit projects, there are fewer funds available for roadway and bridge projects. There is currently a gap between the funds needed by the NPS to maintain its roads and bridges in their current conditions and the funds made available through the FLHP. Therefore when FLHP funds are used for transit projects rather than roadway and bridge projects, this gap increases. Furthermore, public law prohibits the use of FLHP Refuge Roads Program funds for transit. The BLM does not have a dedicated source of funding for transit.

In the case of the other programs administered by the FHWA, the vast majority of funding is allocated to the states by formula; it is the decision of the states, MPOs, and their members, as to which projects are funded. Therefore, in order for FLMAs to be beneficiaries of these funds, FLMA transit projects must be sponsored by State and local transportation authorities, programmed through the statewide or metropolitan transportation planning processes, and be deemed a higher priority than other State or metropolitan transportation projects. Although this approach has worked in some instances, it will not work in all instances. States may oppose using Title 23 sources to pay for projects that are entirely or